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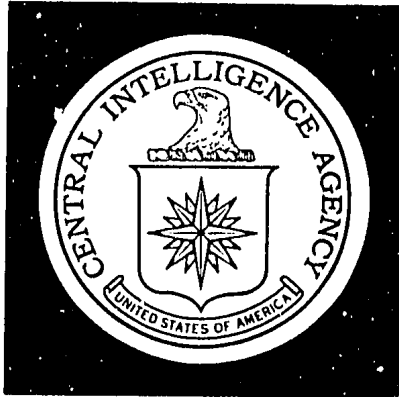
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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Special Report

Soviet Economic Plan For 1971-75

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Nº 666

**26 March 1971
No. 0363/71A**

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SECRET**SOVIET ECONOMIC PLAN FOR 1971-75**

The draft directives of the Five-Year Plan for 1971-75, which will be discussed at the 24th party congress next week, reveal that the Soviet economy will be oriented roughly as it has been for the past several years. The plan implies an average annual rate of growth of nearly 6 percent in the gross national product (GNP), which is only moderately better than the 5½-percent average of the past five years. No major shifts are apparent in the allocation of resources among the principal claimants—defense, investment, and consumption. As before, investment is to grow at a slightly higher annual rate than the GNP (6½ percent) and consumption at a lower rate (5 percent). The directives place unusual emphasis on bettering the lot of the consumer, but the figures given imply that the rate of progress planned for the standard of living is somewhat lower than that achieved in 1966-70.

To achieve even the modest improvement planned in over-all growth, however, the regime must depend upon a substantial increase in productivity (efficiency). The projected rate of growth of man-hours and the stock of plant and equipment are to rise somewhat less rapidly than during the last half of the 1960s. In order to squeeze a greater return from these inputs, the directives hammer away at the need to accelerate the pace of technological progress, although no new strategy or new organizational schemes are revealed to ensure the attainment of this goal.

The plan's other main theme places emphasis on the quality, durability, and reliability of producer and consumer goods. The twin goals of a rapid increase in efficiency and an improvement in the quality of output, long a part of regime plans, have never been fulfilled. In short, when viewed from the standpoint of resources available for inputs, the five-year plan appears substantially more ambitious and less realistic than the production targets alone would suggest.

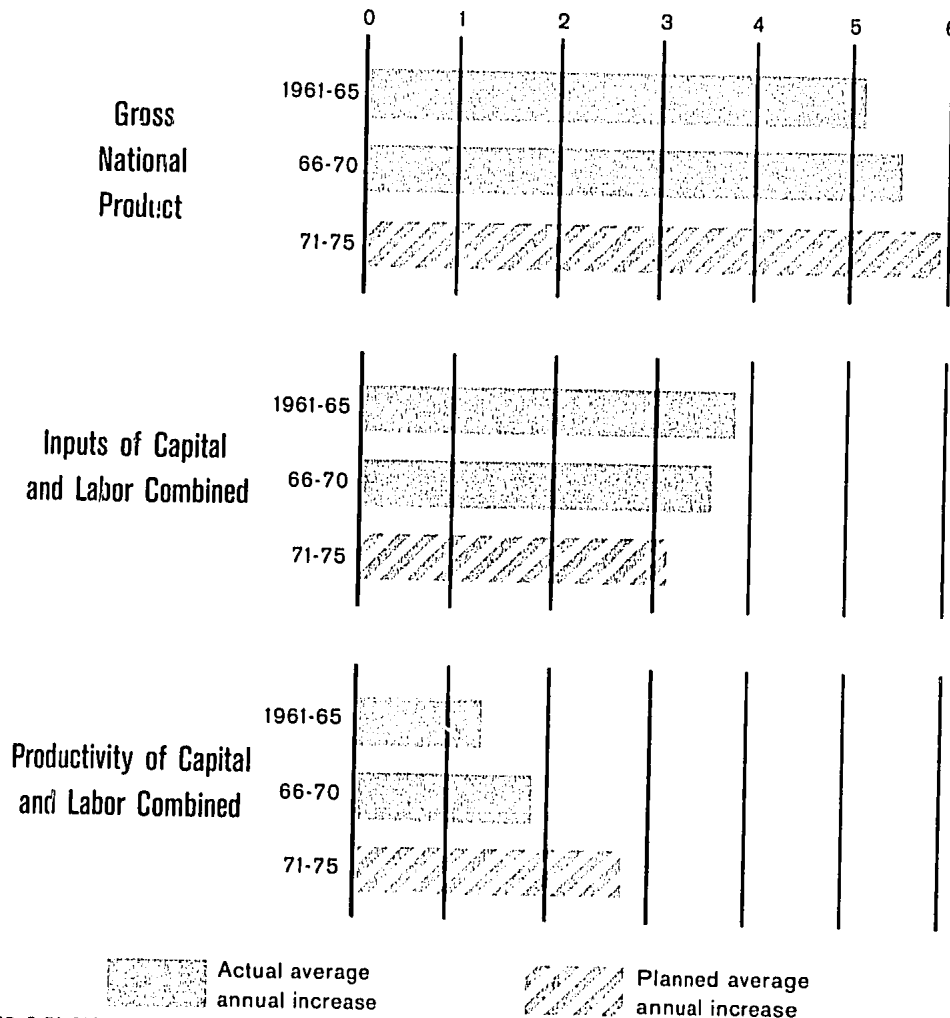
Normally, assessment of the directions of the Soviet economy based on medium-term plans is hazardous because of the preliminary nature of the data presented in the plans. The unusual paucity of data in the published directives for this plan adds to this uncertainty. The sparseness of data may be associated with a lack of balance between planned inputs and goals for output, particularly in the materials and machinery branches of industry. In this sense, the directives may reflect an effort to cover up a set of goals that would otherwise convey a pessimistic outlook for Soviet economic growth.

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USSR Plans Boost in Productivity of Capital and Labor

(Average Annual Rate of Growth in Percent)



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All aggregate measures used in this report are computed in 1968 prices. Previously, 1960 prices were used in computing CIA indices of Soviet economic performance.

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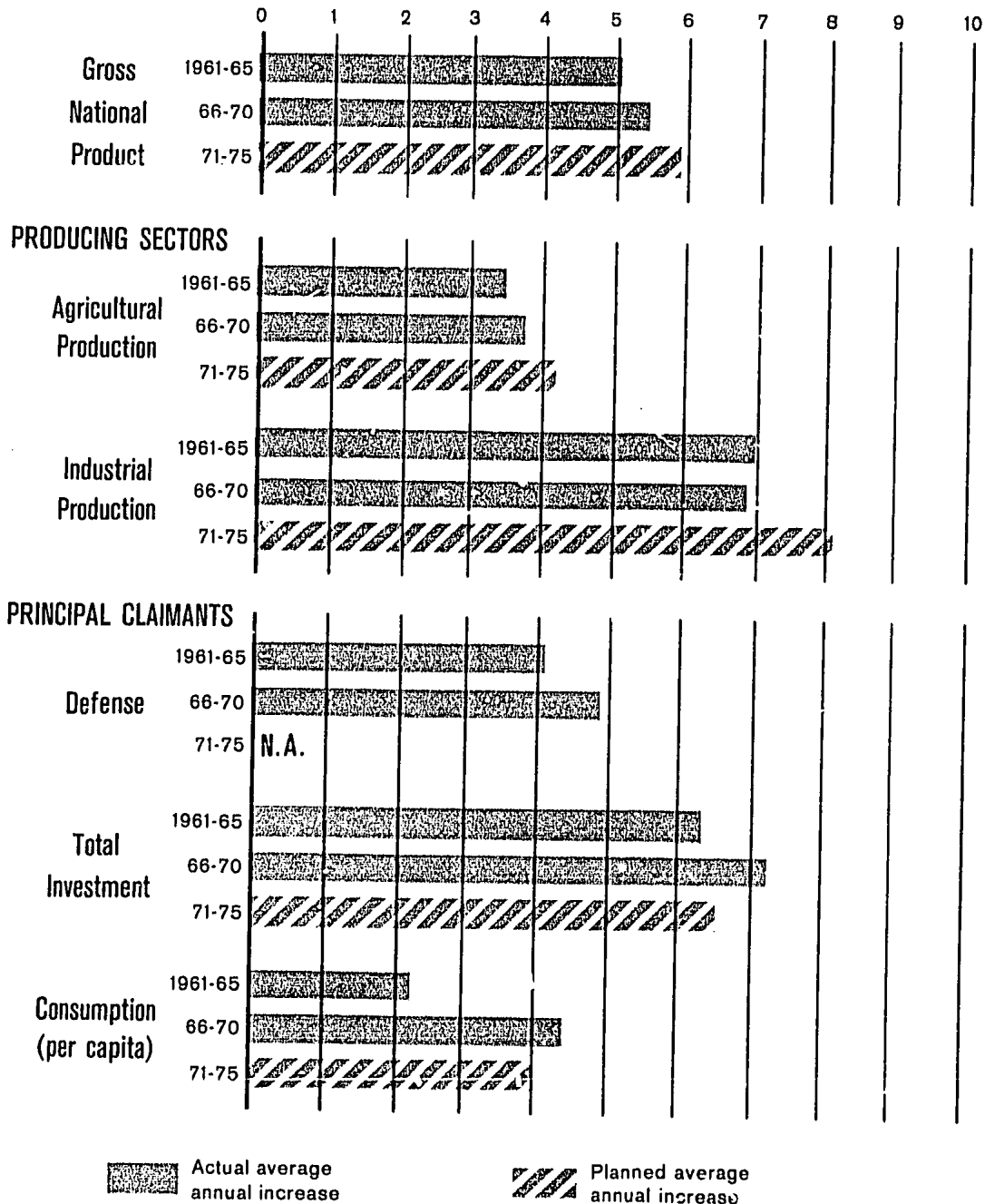
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SELECTED INDICATORS OF SOVIET ECONOMIC PERFORMANCE

(Average Annual Rate of Growth in Percent)



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Background

During the Eighth Five-Year Plan (1966-70), Soviet GNP grew at a average annual rate of 5.5 percent. By comparison the rate posted in 1961-65 was about 5 percent and for the decade of the 1950s 6 percent. Because of the wide fluctuation in agricultural production, however, growth in GNP has varied considerably during the past five years—from 2.6 percent in 1969 to 7.7 percent in 1970. All of the increase in the growth of GNP since 1961-65 can be attributed to an improved performance in agriculture and construction. Industry, the major contributing sector to GNP, grew at about the same pace as in the first half of the decade. The rate of growth of Soviet GNP for the past five years was less than half that of Japan, roughly the same as that of France and Italy, but substantially above that of the US, Germany, and Great Britain.

The modest improvement in the rate of growth of Soviet GNP in the last half of the decade was due entirely to a boost in the rate of increase of factor productivity (output per unit of combined inputs of capital and labor): the rate of growth of inputs of capital and labor in this period was about the same as in 1961-65, but the rate of growth of factor productivity increased from an average of 1.3 percent to 1.8 percent.

The moderate upturn in over-all growth in 1966-70 was reflected in an increased tempo in allocations to all the principal resource claimants (consumption, investment, and defense) in comparison with 1961-65. As in the past, outlays for investment continued to grow at a somewhat higher rate and outlays for defense and consumption at a somewhat lower rate than GNP. These moderately diverging trends led to a further increase in the share allocated to investment—from 29 percent in 1965 to 31 percent in 1970—and a small decline in the share of defense expenditures—from 7½ percent in 1965 to 7 percent in 1970.

The share of consumption, the largest GNP claimant, decreased slightly, continuing its long,

slow trend downward. Although declining as a share of GNP, the rate of progress for consumption for the 1966-70 period was greater than for either of the previous two five-year periods (1956-60 and 1961-65). Moreover, the share of consumer-oriented investment rose somewhat more rapidly than that of producer-oriented investment when compared with 1961-65. This modest shift was designed to compensate partially for the neglect of housing and consumer goods production during 1961-65.

Industry

The pace of growth of industrial output is scheduled to accelerate somewhat during 1971-75 to an average annual rate of increase of about 8 percent compared with the rate of nearly 7 percent averaged for 1966-70. The over-all targeted rate of progress for industry, however, reflects the combination of a continued slow rate of growth in basic industrial materials and a remarkably accelerated rate of growth in machinery. In the past, the planned rate of growth for both major sectors has been roughly the same. The sharp divergence in the current plan between the growth rate of the materials and machinery sectors raises doubts about the statistical basis of the machinery plan. In keeping with the central themes of the directives, the tasks assigned to industry call for marked increases in productivity and an improvement in product quality and assortment.

Among the major sectors of industry, the output of industrial materials is scheduled to grow at about the same rate as that averaged in 1966-70. Indeed, with the exception of chemicals and paper products, the planned rates of growth of industrial materials are somewhat lower. The traditionally rapid-growing chemicals sector, however, is slated for a boost averaging more than 11 percent a year, about twice the rate for other materials. The new plan repeats the emphasis of the 1960s on rapid expansion of the output of fertilizers, plastics, man-made fibers, and synthetic rubber. In all these areas, assortment changes are planned to improve quality, and

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INDUSTRIAL MATERIALS UNDER NEW SOVIET FIVE-YEAR PLAN

Percentage figures show average annual growth. Absolute figures are in million metric tons (MMT), thousand metric tons (TMT), billion cubic meters (BCM), billion kilowatt-hours (BKH), and million tons of standard fuel (MTSF).

PLANS FOR METALS EMPHASIZE QUALITY AND ASSORTMENT OVER QUANTITY

	USSR			US
	Actual % Increase 1966-1970	Planned % Increase 1971-1975	Planned Goal* 1975	Output 1970
Basic metals				
Crude steel	5	4½	146 MMT	120 MMT
Rolled steel (finished)	5½	5	103 MMT	85 MMT**
Aluminum	7½	9	2,372 TMT	3,600 TMT
Copper	9	6½	1,650 TMT	2,100 TMT

AMBITIOUS TARGETS FOR OIL AND GAS HIGHLIGHT ENERGY PLANS

	USSR			US
	Actual % Increase 1966-1970	Planned % Increase 1971-1975	Planned Goal* 1975	Output 1970
Total Primary Energy***	5½	5	1,595 MTSF	1,868 MTSF**
Gas	9	9	310 BCM	620 BCM
Oil	8	7	490 MMT	472 MMT
Coal	1½	2	690 MMT	515 MMT
Electric Power	8	7	1,050 BKH	1,750 BKH

*Midpoint of range

**1969 figure, latest available.

***Not including hydroelectric power.

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large-capacity production units are to be installed to reduce costs.

Qualitative goals for metals receive greater stress than quantitative targets, even more so than in the case of chemicals. Only aluminum among the major ferrous and nonferrous products is slated to grow at a rate comparable to that achieved in the last five years. Despite a scheduled slowdown in the rate of growth of crude steel output, the USSR remains a candidate for the title of the world's number one steel producer in 1975. More important to long-term Soviet prospects, however, is the fulfillment of new targets for a wider assortment and an improvement in the quality of steel products. The 1971-75 campaign for quality is a direct reaction to the ineffectiveness of measures taken to accomplish this goal during the past decade.

The production of primary energy is to increase at an average annual rate of about five percent during 1971-75, slightly less than during the past five years. If energy plans are met, the share of oil and gas in the over-all fuel balance will increase from a level of about three fifths in 1970 to two thirds by 1975, and the share of coal will drop to less than one third. The fulfillment of oil and gas goals, however, will be very difficult and will require a major spurt in investment and in the output of pipeline.

The oil target for 1975 is higher than projections previously announced by Soviet officials. Reaching it will require extensive development of oil deposits in permafrost regions of West Siberia and the Far North, where the extremes of climate and difficult terrain and the lack of modern equipment and requisite technology will greatly impede progress. Moreover, the required forced expansion of production in the new fields may lead to a serious loss of reserves, which will jeopardize future development of the petroleum industry.

As with crude oil, much of the increase in gas output must come from West Siberia and will

face similar and perhaps even more difficult technical problems of exploitation. The most serious difficulty in meeting plans for natural gas production, however, is the installation of the necessary pipelines. The goals for oil and gas pipelines require a supply of at least 16 million tons of pipe. This amount of large-diameter pipe is at least six million tons more than the USSR can produce or plans to import for the 1971-75 period.

The goal to increase electric power output by about 7 percent annually during 1971-75 represents a reversal of the traditional practice of planners to set higher goals for electric power than for industrial output. This changed relationship suggests that Soviet planners are counting on increased efficiency in the consumption of electric power by industry.

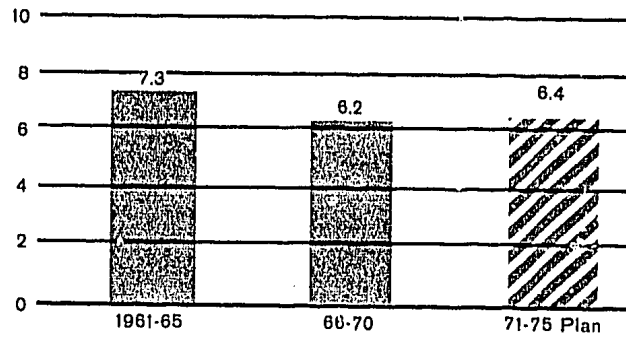
Soviet machinery output—the source of investment equipment, military equipment, and consumer durables—is slated to increase by more than 11 percent per year, or nearly a third above the rate attained in the past five years. As indicated above, however, there is evidence that this target may have been deliberately inflated to be consistent with the official index of machinery for 1966-70—a claimed 11.8%. This official index is known to be overstated by double-counting and inflated pricing. The production of consumer durables is to grow at a whopping average annual rate of 17 percent, with a targeted annual increase of nearly 30 percent in passenger-car output leading the way. The draft plan also places heavy emphasis on the continued high rate of growth of electronic equipment and computers; the over-all output of the instrument industry, including computers, is to double between 1970 and 1975. The main task for the computer industry is to produce third-generation machines. The plan for the electronics industry also emphasizes the development of silicon device technology on an industrial scale in order to provide the integrated circuits for third-generation computers and for miniaturized electronics equipment for both civilian and military purposes.

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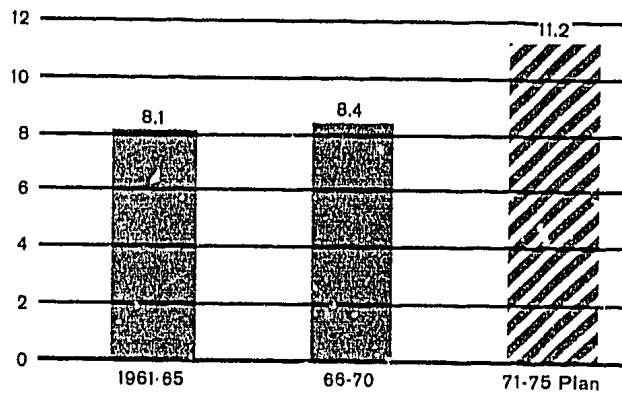
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Growth in Major Sectors of Soviet Industrial Production (Average Annual Rate of Growth in Percent)

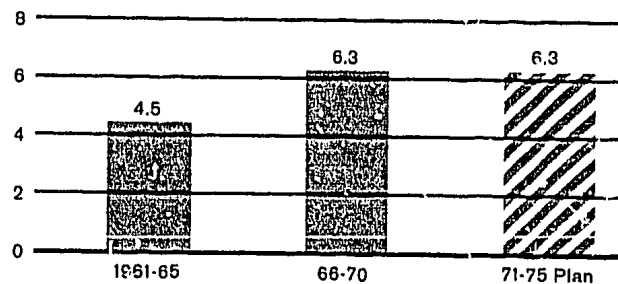
Industrial Materials



Machinery



Nondurable Consumer Goods

Actual average
annual increasePlanned average
annual increase

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The success of the light and food industries in meeting their relatively modest targets is closely tied to trends in agricultural output. If farm output targets are met, presumably there will be enough raw materials flowing to food processing, textile, and other light industry plants to fulfill the production goals.

Agriculture

As before, the performance of the agricultural sector will be a decisive factor in the successful fulfillment of the regime's economic plans. At first glance, the agricultural goals for 1971-75 appear only moderately ambitious. The achievement of the planned average annual rate of increase in farm output of 4.2 percent would require only a small boost over the rate attained in the 1966-70 period. The growth rates recorded in the earlier period, however, were based in a very unfavorable weather year (1965) and ended in a generally favorable year (1970), while the current goal begins on the high plateau of 1970.

The regime's 1971-75 goals for agriculture as contained in the new directives are essentially the

same as those released last July at a party plenum. Highlights of the plan follow: (a) total direct investments in agriculture, including rural housing and services, are scheduled to be over 128 billion rubles—a 10-percent average annual rate of increase compared with a 9½ percent average for 1966-70; (b) the flows of other types of industrial goods to the farms are to expand at an average of about 6½ percent a year compared with a rate of just over 5 percent in 1966-70; (c) the output of the most important of these industrial goods—mineral fertilizer—is scheduled to reach an ambitious 90 million tons by 1975, with deliveries to farms of 75 million tons; (d) nearly 7½ million acres of land are to be newly irrigated and 12 million acres are to be drained. In summary, the average annual rate of increase in total inputs is estimated to be about 1½ percent per year, a moderate boost over the rate of about 1 percent posted in 1966-70.

The implied output goals for meat and other quality foods are relatively conservative, especially considering the pressing need for a marked improvement in the quality of the Soviet diet.

HIGHLIGHTS OF AGRICULTURAL PLANS

	Actual 1961 - 65	1966 - 70 Plan First Brezhnev Program	Actual 1966 - 70	1971 - 75 Plan Second Brezhnev Program
I. <u>OUTPUT GOALS MODERATELY AMBITIOUS</u>				
TOTAL OUTPUT ^a — % increase over previous five-year period	12	20	21½	21
GRAIN — million metric tons —	106	136	135	158
% increase over previous five-year period	1½	28	27	17½
MEAT — million metric tons —	8	9½	10	12½
% increase over previous five-year period	16	19	25	25
II. <u>RESOURCE FLOWS TO FARMS TO RISE MODERATELY</u>				
TOTAL INPUTS — % increase during five-year period	11	12	5	7½
INVESTMENT — % average annual rate of growth	11	16½	9½	10
DELIVERY OF FERTILIZER — % average annual rate of growth	19	15	11	10½
GROSS ADDITIONS OF IRRIGATED AND DRAINED LAND — millions of acres — average for five years	2.2	4.4	2.9	4.0

^a CIA estimates.

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Success in reaching the livestock targets as well as the over-all agricultural output goal depends heavily on achieving the projected growth in grain output.

All of the increase in grain output is scheduled to come from higher yields, as no further expansion in acreage is expected. The decisive factor in raising grain and other crop yields will be the availability of fertilizer. Of the 75 million tons of fertilizer scheduled for delivery to the farms in 1975, about 33 million tons are to be applied to grain, raising the share of fertilizer allocated to grain crops from 35 percent in 1970 to 44 percent in 1975. Soviet planners expect that nearly two fifths of the gain in total output in 1971-75 will be attributable to the increased use of fertilizers.

In the latest swing of the policy pendulum toward private economic activity, it appears that there will be official support during 1971-75 for the private farm sector, which produces about 30 percent of total agricultural output. Recent official statements and press articles have stressed the need to raise livestock in the private sector, to sell feed and young stock to private owners, and to extend pasturing and haying rights to them. An added incentive is a 35-percent boost in the government's purchase price for hogs and poultry, announced in February 1970. Moreover, the planned rate of growth for private agricultural production in 1971 appears to be above the rate posted in recent years and equal to that of the immediate post-Khrushchev period, when a relaxed attitude toward the private sector predominated.

Although the new resource plans of the "Second Brezhnev Program" are less grandiose than those of the unfulfilled "First Brezhnev Program" of 1966-70, the new program is costly and will require a steady effort, free from meddling by the political leadership. As in the past, however, altered circumstances could bring about changes in the current program. If several disappointing harvests occur during 1971-75, for

example, pressure would build for immediate and larger allocations for agriculture. Alternatively, unusual success in increasing farm output could seriously weaken priority for the agricultural sector and lower present resource plans. Finally, increased military requirements could lead to a rapid erosion of the new program.

Investment

The recently published plans for the 1971-75 period are notably uninformative on investment details, except for the agricultural sector. The announced production targets for machinery are limited to six categories, less than half the number released in the pre-congress directives for 1966-70. This reticence on new capital formation as well as in other sectors and the failure to hold the traditional central committee plenum to approve the directives suggest indecision or even opposition within the leadership over the planned pattern of resource allocation.

In 1966-70, new fixed investment grew at an average annual rate of more than 7 percent, about one percentage point higher than that averaged during the first half of the decade. Despite this rise, the growth in total capital stock declined from an average of about 8½ percent in 1961-65 to 7½ percent in 1966-70, reflecting a step-up in retirements of buildings and equipment. Although no plans for growth in the total capital stock of buildings and equipment have been released for 1971-75, the relatively higher level of retirements observed in recent years probably will be maintained during 1971-75. If so, an average growth in capital stock of about 7 percent per year can be expected in 1971-75, with an average growth in investment of between 6 and 7 percent per year.

During 1971-75 the agricultural sector will receive a larger share than previously of total investment allocations, reflecting the renewed priority for increasing farm output. The investment share for the farms rose from 17½ percent in 1965 to 19 percent in 1970, and will reach about 22½ percent in 1975 if plans are met.

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Consumer Welfare

According to the new plan directives, per capita consumption will rise by 4 percent annually during 1971-75. This rate is slightly lower than that achieved during 1966-70, when the average annual rate of growth of per capita consumption was 4.3 percent. The current goal seems to be a continuation of the recent trend toward greater realism in dealing with the consumer. Khrushchev made pie-in-the-sky pledges of increases in consumption but did not allocate sufficient resources to fulfill these promises. In 1966-70, for the first time in Soviet planning history, medium-term goals for consumption were met.

Despite the improved performance in consumer welfare during the Brezhnev regime, consumer discontent may be greater now than in 1965. This paradox is a result of several factors. First, despite recent gains, the level of living in the Soviet Union remains very low, even by Eastern European standards. Soviet consumers generally are aware of this fact, and recent gains have only whetted their appetites for faster progress. Second, the expansion of incomes at a much faster rate than the growth of goods and services has added to consumer frustration. Third, poor assortment, low quality, and shortages still abound. Fourth, those areas in which consumer dissatisfaction is the greatest—housing and quality foods—have been among the slowest to improve.

The fulfillment of goals for increases in the supply of quality foods during 1971-75 will permit a substantial decline in the share of daily calories obtained from the starchy staples—potatoes and grain. Meat consumption, for example, is slated to rise by 20 percent and that of dairy products by 12 percent. Even if the goal for meat production is met, however, supply will fall short of demand (at prevailing prices) and consumer discontent will continue. Throughout 1970 there were frequent reports of a complete absence of meat in state stores in many provincial cities. Per capita consumption of meat in the USSR is

only about half the level of that in West Germany and approximately 60 percent of that in Czechoslovakia.

Housing ranks with quality food at the top of the list of unsatisfied demands. The housing situation has gradually improved, but even if the new five-year plan goal is achieved, per capita housing space will remain about 10 percent short of the minimum standards set for health and decency by Soviet officials and far short of the conditions enjoyed by other Europeans. In the late 1960s, for example, West Germans enjoyed about twice as much housing space per capita as

CONSUMER WELFARE UNDER NEW SOVIET FIVE-YEAR PLAN

CONSUMPTION PLANS EMPHASIZE CONSUMER DURABLES

	Average Annual Percentage Rate of Growth		
	Actual 1961 - 65	Actual 1966 - 70	Plan 1971 - 75
Per capita consumption ^a	2	4½	4
Food	1	3½	3
Soft goods	1½	5½	3
Durable goods	8½	8	13
Personal services	4½	5	5½

^a Consumption is measured in 1968 prices at factor cost.

PACE OF WAGE BOOST TO SLOW

	Average Annual Percentage Rate of Growth		
	Actual 1961 - 65	Actual 1966 - 70	Plan 1971 - 75
Average wage			
All workers	6	6	4½
Non-farm workers	3½	5	3½
Farm workers	14	9	7
Public consumption funds ^a (Per capita)	9	9	7

^a Includes the financing of items such as pensions, stipends, leave pay, education, and medical services.

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the citizens of the USSR. Moreover, Soviet housing plans have been habitually underfulfilled.

There is some evidence of an improved climate in 1971-75 for private housing construction, which provides about one third of the new housing constructed each year. The implied 1971 plan goal for private housing is 27 percent above the actual 1970 level and some 16½ percent above the average annual quantity constructed during 1966-70. Past performance in fulfilling private housing targets, however, suggests that this goal is unlikely to be achieved.

Production of consumer durables is scheduled to expand during 1971-75 at a rate considerably in excess of the rate recorded during 1966-70. If plans are met, most Soviet families will have basic appliances by 1975. According to Soviet claims, of every 100 families 72 will have television sets and washing machines, 64 will have refrigerators, and 85 will have radios. These claims are somewhat exaggerated inasmuch as they make no allowance for the retirement of worn-out appliances.

The availability of automobiles during the current planning period is the major issue in the durables category. The Soviet Union is only now coming into the age of mass automobiles. Out of a production of 344,000 cars in 1970, slightly less than one third were sold to the public. Plans call for an increase to 1.2 - 1.3 million cars, including sales to the public of 800,000 by 1975. If plans are met, car sales to the public during 1971-75 could absorb approximately one fourth of the 46 billion rubles currently held in saving accounts and thus ease inflationary pressures while boosting consumer morale. Production is considerably behind schedule already, however, and the best that a senior planning official could promise recently was that by 1975 queues would be "substantially shorter." It is estimated that in 1975 there will be about 2½ million privately owned cars in the USSR, about three times the number in 1970, but there will still be only about one car per 100 Soviet citizens.

Planned growth in the consumption of soft goods is down somewhat from the level of the past five years. This may reflect a further decline in the level of imports of soft goods—chiefly ready-made clothing and shoes—which boosted consumption sharply in 1967 and 1968. In addition, it may reflect the elimination of, or at least a substantial reduction in, the production of poor-quality goods, preventing an inventory accumulation problem.

During the early 1960s immense stocks of unwanted soft goods accumulated in warehouses; the urban population, finally adequately supplied after the war years, refused to purchase goods of poor quality and limited assortment. The problem diminished during the late 1960s when the planners distributed many of these goods to rural areas where residents had money to spend for the first time. At present, however, rural residents are apparently becoming more sophisticated and are rejecting poor-quality goods. Reports of unwanted goods accumulating on store shelves are once again common.

Planned income goals for 1971-75 indicate a renewed effort by the regime to stifle inflationary pressures. Although substantial increases are planned for all the major sources of income in the current planning period, these gains will be less than those achieved during 1966-70. Moreover, the fastest growing segment of real income will be from services rendered from the public consumption fund, such as education and health care, rather than direct money outlays.

Past efforts to maintain a balance between incomes and the availability of goods and services have failed largely because the cost of new welfare measures has exceeded estimates. The excessive cost of wage adjustments such as the boost in the minimum wage in 1968, for example, caused the average earnings of wage and salary workers to grow approximately one third faster than planned for 1966-70. The current plan calls for another boost in the minimum wage, which may again lead to across-the-board wage adjustments

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in order to maintain desired wage differentials. Together with the normal wage creep associated with increasing productivity, this could thwart efforts to check the rising rate of wage increases.

With most prices fixed by the state, the excessive amount of money in the hands of the public has resulted in longer queues for scarce items, an astronomical rise in total personal savings—increasing more than fourfold since 1960—and a decline in the incentive effect of wage increases. The rise in savings during 1966-70 was equal to approximately one half of the total increase in personal income between 1965 and 1970. Although strict state controls have prevented most overt signs of discontent, the gap between income and goods continues to breed worker cynicism.

Manpower

As in the past, the directives for 1971-75 were reticent on the planned allocation of labor, the principal resource required to achieve output goals. Considering the additional manpower available in the early 1970s and the past history of the growth of labor productivity, however, the output goals for 1971-75 appear overly ambitious.

With Soviet workers only about half as productive as their US counterparts, labor productivity growth has been an Achilles' heel in Soviet economic development. Shortfalls in the goals for productivity growth in the major sectors of the economy have been a persistent problem. Until the mid-1960s, however, deficiencies in labor productivity growth were partially overcome by transferring farm workers to urban jobs and by bringing housewives and youths into the labor force.

Since the mid-1960s these sources have been largely exhausted. Surplus labor no longer exists in large quantities on farms, and approximately 95 percent of the work-age population have jobs or attend school on a full-time basis. Success for the Soviet plans for 1971-75 thus depends on

achieving gains in labor productivity considerably above the rates recorded during the preceding five years. Indeed, four fifths of economic growth from 1971-75 is to result from greater productivity, and only one fifth from the use of additional labor. In contrast, during the 1960s, approximately two thirds of economic growth was due to greater productivity and one third to an increase in the number of workers.

The current productivity goal for socialized agriculture is particularly ambitious, calling for a rate of growth some ten percent higher than that achieved during the preceding five years. Yet, the rate recorded during 1966-70 was helped by the fact that the period began with a very bad agricultural year (1965) and terminated with a generally favorable year (1970), while the current goal is based on the high plateau of 1970 and its fulfillment depends on exceptional weather conditions during the period. The planned gains in productivity for construction and industry are as lofty as those for agriculture and are unjustified by any new developments on the labor scene.

In the past, an almost infinite variety of incentives and coercion has been applied in an effort to achieve productivity goals. No past scheme has proved to be a panacea, and anticipated changes are not likely to make a significant contribution to improved efficiency. During the current plan period the regime is counting on improved managerial techniques to spur productivity growth.

If productivity goals are not attained, it is doubtful that sufficient additional manpower can be found to take up the slack. It is estimated that the highest attainable rate of growth of the total Soviet labor force will be about 1.7 percent annually during 1971-75, slightly higher than the rate registered in 1966-70. Moreover, because of structural shifts within the labor force, the average annual rate of growth of total man-hours may be slightly less than the rate of growth of the labor force, and 15 percent lower than the rate achieved during the preceding five years. Faster

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growth in the labor force would require cutting the size of the armed forces or restricting educational opportunities, neither of which seems likely.

Economic Reform

If the section in the directives under the heading "Improving Management and Planning" is a guide to the regime's plans for economic reform, there will be no significant new initiatives during 1971-75. Nevertheless, experimentation with new methods of planning and management will continue during the period. Two highly publicized projects—organization of enterprises into "production associations" and the realization of labor savings via the "Shchekino" method—probably will be sustained. The past reluctance of central authorities to relinquish control over lower administrative echelons, coupled with the failure to effect drastic reforms of prices, incentives, and planning, however, suggests that such new methods are unlikely to have a substantial effect on the Soviet economy during 1971-75.

Production associations are groups of enterprises that use similar production technology or manufacture similar products. The member enterprises are usually close to each other geographically. By merging individual enterprises into larger ones, the proponents of associations hope to alleviate some of the more persistent Soviet economic problems, including a lack of specialization, an unsatisfactory rate of technical progress, excessive costs due to duplication of management structure, uneconomic production in small enterprises, and the poor quality of intermediate goods. Current emphasis on production associations may foreshadow an official decree proclaiming them the standard organizational unit in industry, but further experimentation may be required.

The Shchekino experiment, wherein specified enterprises cut their work forces while meeting higher production targets, has been hailed as a success at many of the involved enterprises. It has

also led to worker discontent and the problem of finding jobs for fired workers. Until the experiment is introduced throughout the economy on a long-term basis, its full impact cannot be assessed. Its failure to provide managers with incentives to operate efficiently, however, suggests that, like earlier reforms, the Shchekino experiment will not fundamentally improve the efficiency of the Soviet economy.

The new plan directives mention the economic reform of 1965 only briefly, noting that the last industrial enterprises will finally be transferred to the reform system by the end of 1975. This is only the most recent of a number of indications that the 1965 reform, as originally envisioned, is dead, although it has not been given a formal burial. The brief flirtation with the partial replacement of administrative commands by economic levers, such as prices and profits, appears to be over.

The main features of the 1965 reform—reduction in the number of economic indicators set from above, greater emphasis on profitability and sales, and expansion of decentralized investments—were intended to give enterprise directors more freedom and the workers more incentive. A failure to change the basic operating principles of the Soviet economy, however, seriously limited any chance for success. To be effective, the reform should have been accompanied by more rational and flexible prices, less central control over the allocation of materials, and relief from the chronic shortage of most materials. The leadership has given no indication that the radical changes necessary to improve matters in these areas will be introduced.

The new rallying cry is "scientific-technical" progress, linked with a better control of the command economy by the party. There is no indication in the directives, however, of plans for a major change in the system for introducing

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technology, although the party for good reason has expressed considerable dissatisfaction with it. Instead there is simply a list of plans for specific innovations. In this connection, the directives' emphasis on improving the state planning system by the greater use of computers and improved communications suggests that the regime hopes

such tactics will obviate the need for future reforms. The current use of computers in management is neither effective nor efficient and, with the considerable lag that exists in the USSR between computer development and application, it is unlikely that computers will have a significant impact on the Soviet economy during the current plan period.

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